

U.S. Insurance Overview

for

International Companies

Presented By:

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*This is a basic listing of insurance coverages.
A thorough review is recommended.*



COMPULSORY INSURANCE

Workers' Compensation

Individual state statutes define the workers' compensation benefits that must be provided by U.S. employers (through the purchase of insurance or by qualification as a self-insurer). Statutory benefit amounts vary from state to state, but the types of benefits required for work-related injury or disease include (1) the payment of all medical expenses, (2) compensation for lost wages and (3) specified disability and death benefits (see Workers' Compensation and Employers' Liability coverage description for more detail).

Various federal laws define benefits to which certain types of employees are entitled, e.g., longshoremen and harbor workers, offshore drilling rig workers, the masters and crews of "navigable water" vessels, railroad workers, coal miners, and overseas defense base employees.

Workers' Compensation and Employers' Liability insurance policies can be endorsed to provide required coverage for employees subject to these federal laws.

Automobile Liability

Each state has its own automobile liability financial responsibility laws. The limits required are, however, relatively modest and certainly insufficient to cover loss amounts that might reasonably be expected to arise from the operation of automobiles in the U.S. today.

Federal regulation applies only to carriers transporting goods and persons between states and to the transportation of hazardous materials. In both cases, specified minimum amounts of liability insurance are required.

BASIC INSURANCE COVERAGE DESCRIPTIONS

Casualty Insurance Coverages

Commercial Automobile Coverage

Basic commercial automobile liability insurance pays all sums which an insured becomes legally obligated to pay others for bodily injury or property damage caused by insured vehicles. It also pays for legal expenses incurred in connection with automobile-related claims or suits.

This basic liability protection can be extended to include the following optional coverages:

- **Non-Owned and Hired Car Liability.** Coverage can be added for bodily injury and property damage claims arising out of non-owned vehicles hired by the insured or used by others on its behalf.
- **Medical Payments.** Coverage reimburses employees and guest passengers for reasonable medical expenses incurred within one year of the date of an automobile accident.
- **Uninsured Motorists.** Coverage pays for bodily injury to anyone operating or riding in insured vehicles if the injury results from an accident caused by a motorist who is not insured.
- **Physical Damage Coverages.** “Collision” coverage, as the name implies, pays for damage to insured vehicles resulting from collision with an object or from the upset of a vehicle. “Comprehensive” coverage insures against any other damage to vehicles except for a few uninsurable hazards such as freezing, wear and tear and mechanical breakdown.

Commercial General Liability Coverage

The Commercial General Liability policy provides the following basic coverages for described premises and related operations:

- | | |
|-------------|---|
| Coverage A: | Bodily Injury and Property Damage Liability |
| Coverage B: | Personal Injury and Advertising Injury Liability (false arrest, libel, slander, invasion of privacy, infringement of copyright, etc.) |
| Coverage C: | Medical Payments (voluntary payment of minor third party medical expenses) |

Any new locations or operations added during the policy year are automatically insured and newly acquired organizations are covered for up to 90 days.

Coverage is normally provided for the following liability exposures, in addition to basic premises and operations protection:

- Independent Contractors Liability (liability arising out of the acts of independent contractors hired to provide services to the insured or to perform work for others on the insured's behalf),
- Products & Completed Operations Liability (injury or damage caused by insured products or arising out of work performed for others), and
- Contractual Liability (liability of others assumed under contracts).

Workers Compensations & Employers' Liability Coverage

Standard Workers' Compensation policies provide two basic coverages. Part One pays for the medical and compensation benefits specifically required by the Workers' Compensation statutes of the state (or states) in which operations are insured. Part Two affords protection for employers' liability under common law.

Part One: Statutory benefit amounts vary greatly from state to state, but the types of benefits required are standard. They include:

- All medical, surgical and hospital treatment reasonably required to cure or relieve work-related injuries and diseases;
- Compensation for lost wages (subject to stipulated weekly maximum amounts); and,
- Specified disability and death benefits.

Part Two: Employers' liability coverage responds if an employee rejects Workers' Compensation benefits and brings suit for damages under common law. This option is available to employees only where it is permitted by state statutes. Part Two also may apply if suit is brought by a third party alleging damages arising out of work-related injury to an employee.

Under common law, an employer's negligence must be proven before an injured employee can receive compensation. This makes recovery by employees in court difficult, as three common law employer defenses make successful suits a rarity. These defenses (which are waived with respect to statutory Workers' Compensation benefits) are:

- Contributory negligence (on the part of the injured employee),
- Negligent acts of fellow servants, and
- Assumption of risk (risk normal to the work performed).

Excess/Umbrella Liability Coverages

The primary function of any Excess or Umbrella Liability coverage is to supplement protection afforded by underlying liability insurance policies; to increase overall limits of liability carried to levels that will provide adequate protection against very large or “catastrophic” claims. Excess/Umbrella Liability policies can be written on either an occurrence or a claims-made basis. They should; whenever possible, be written on the same basis as underlying coverage(s).

Umbrella Liability

Umbrella Liability policies are normally written to provide additional limits for most (if not all) of an insured’s primary liability coverages. In addition to providing higher limits, the Umbrella Liability policy also offers broad coverage which encompasses exposures to loss that may not be insured under primary policies (Advertiser’s Liability, Non-owned Aircraft Liability, Discrimination, etc.). Coverage for otherwise uninsured exposures is normally provided subject to a self-insured retention of \$25,000 or more per occurrence.

It’s important to remember that Umbrella Liability policies may contain coverage limitations and exclusions that make the protection they provide less broad, in some respects, than that afforded by underlying policies. Umbrellas should be endorsed, when necessary, to eliminate any such inconsistencies.

Property Insurance Coverages

Property (Direct Damage) Coverages

Building and Personal Property

Commercial real and personal property policies provide coverage for damage to three basic types of property: buildings, business personal property and personal property of others.

- Building coverage includes not only buildings and structures but also building service-related property such as fire protection systems, heating, cooling and ventilating equipment, awnings, screens, elevators, carpeting, lawnmowers, snowplows, etc.
- Business personal property coverage includes furniture, fixtures, production machinery and equipment, merchandise, stock and tenant's improvements and betterments.
- Coverage for personal property of others insures property owned by others which is in the insured's care, custody or control for repair, processing, storage, sale, etc.

A property policy insures the financial interest of a policy holder in described property. That "insurable interest" must be proven by the insured at the time of loss in order to secure recovery. Coverage can be written on either a "named peril" or an "all risk" basis and can be further modified to meet the requirements of individuals through the use of numerous endorsements which can be added to broaden (or restrict) standard policy terms.

Business Income Coverage

Coverage is provided for the following losses when caused by a suspension of operations due to damage to property at described premises (coverage includes loss resulting from damage to personal property in the open (or in a vehicle) within 100 feet of insured locations):

- **Business Income:** Net income that would have been earned and continuing normal operating expenses (including payroll) incurred during the time require to repair, rebuild or replace damaged property.
- **Extended Business Income:** Actual loss of business income during a recovery period of up to 30 consecutive days after damaged property is repaired and operations are resumed (coverage for an additional period is optional).
- **Extra Expense:** Expenses, other than normal operating expenses, incurred to avoid or minimize the suspension of business operations. If operations cannot be continued, extra expenses are covered only to the extent that they reduce the business income loss payable.

Transit Coverages

Transportation Floater

A Transportation policy typically insures against the loss of incoming or outgoing shipments of “lawful goods and merchandise” on owned vehicles or by:

- any railroad or railway express company;
- any motor truck or land transportation carrier;
- regular coastwise steamers navigating inland, Atlantic and Gulf waterways of the U.S.;
- scheduled air transportation carriers; and
- messengers and/or handcarts.

EMPLOYEE BENEFITS

Social Security Benefits

In the U.S., a federal Social Security program provides retirement, disability, death, survivor and (under specified conditions) medical care benefits to all covered persons. “Covered persons” is defined to include all employees, including self-employed persons, except for casual, agricultural and domestic (household) employees.

The Social Security program is funded by a payroll tax obligation that is shared equally by employers and employees. Contribution percentages and the taxable gross payroll base to which they are applied have increased in years past and may be expected to increase in the future.

Eligibility for a retirement benefit requires that contributions be made for a minimum number of years prior to age 65 when Social Security pensions are normally first received (a lower monthly benefit can be elected starting at age 62).

Unemployment Benefits

All states require employer contributions to unemployment benefit plans. The benefits and employer contribution requirements vary from state to state.

Discretionary Benefits

Discretionary employee benefit programs (voluntarily provided by U.S. employers) might include any of the following benefits:

- Hospital/Medical/Dental insurance
- Disability Income insurance
- Group Life insurance
- Travel Accident insurance
- Accidental Death and Disability insurance
- Retirement Plans:
 - ♦ Profit sharing plans
 - ♦ Incentive savings plans
 - ♦ Other defined benefit retirement plans
- Employee stock ownership plans
- College tuition aid plans
- Legal assistance plans

Few U.S. employers offer all of the benefits listed, but a majority provide some basic benefits, e.g., hospital/medical, group life and disability income benefits. Employers usually pay a portion of the cost of each benefit plan offered...typically, more of the cost of “basic” benefits and less for other (less frequently provided) benefits.

Business size, geographic location, trade union involvement and management’s human resources philosophy all affect the variety of benefits that is offered and the portion of total benefits costs that is paid.

The Employee Retirement Income Security Act of 1974, establishes stringent standards and administrative requirements for a broad range of subject employee benefit plans. Knowledge of and compliance with) ERISA requirements is critically important for any U.S. business that offers discretionary employee benefit plans.